First Trust
Monday Morning OUTLOOK

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – *Dep. Chief Economist*
Strider Elass – *Senior Economist*
Andrew Opdyke, CFA – *Senior Economist*
Bryce Gill – *Economist*

630-517-7756 • www.ftportfolios.com October 3, 2022

No Recession, Yet

We are not "recession deniers," we just don't think one has started yet. The distortions of economic activity from lockdowns, massive deficit spending, and money printing are immense. It's hard to imagine the US can unwind these policies and not have a recession.

Monetary policy, for example, is going to have to get tight and stay tight to bring down inflation and keep it there, so we don't get into a stop-and-go cycle of inflation problems like we did back in the 1970s and early 1980s. And a monetary policy that gets tight enough and stays tight enough for long enough to achieve that goal is very likely to cause a recession. We're just not there yet.

Initial jobless claims totaled only 193,000 in the week ending September 24, extremely low by historical standards, while continuing jobless claims are just 1.347 million. Industrial production is up at a 4.0% annual rate in the first eight months of the year. Gross Domestic Income (GDI) was positive in the first six months of 2022. These are just not recessionary numbers.

Meanwhile, we are projecting a 3.0% annualized growth rate for real GDP in the third quarter. Hurricane Ian should have a temporary negative effect, but it hit so late in Q3 that its impact on GDP data should be minor.

Yes, the goods sector of the US economy has seen better days. Some companies in the goods sector, like Peloton and CarMax, have gotten hammered because they seemed to project forward COVID-like economic conditions forever, including lockdowns. Or, maybe they just had business models whose problems could be better hidden when the federal government was passing around stimulus checks like candy. That was unwise and these companies are paying for it now as the balance between goods and services returns toward normal.

It should be no wonder the US is not in recession yet. Until two weeks ago, the Federal Reserve hadn't raised short-term rates above the 2.5% level it thinks is the long run average. Even at current levels, short-term rates are still well below inflation.

Yes, growth in the M2 measure of the money supply slowed sharply starting in February but as Milton Friedman taught us (unlike those at the Fed who are still ignoring his lessons), the link between growth in the money supply and inflation is long and variable.

In addition, there are reasons to question whether the slowdown in M2 money growth means tight money. The Treasury now holds a very large balance in its checking account at the Fed – The "Treasury General Account." So far in 2022, the Treasury has collected roughly $480 billion in taxes or bond sales that it deposited at the Fed and did not spend. This subtracts from M2, at least temporarily.

Why the Treasury needs such a large amount of cash sitting around is a mystery. Especially when it has a massive structural annual budget deficit. As a result, we believe this can't continue, and so it remains to be seen whether the slowdown in the growth of M2 will persist.

In the meantime, rate hikes, which have already impacted the housing market will likely cause a recession by the second half of next year, with some probability of it starting early next year and some probability it starts as late as 2024. There is more economic pain to come; in certain areas, like the labor market, the pain is almost completely in front of us, not behind.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-3 / 9:00 am	ISM Index – Sep	52.0	**52.3**	50.9	52.8
9:00 am	Construction Spending – Aug	-0.3%	**+0.3%**	-0.7%	-0.4%
afternoon	Total Car/Truck Sales – Sep	13.5 Mil	**13.3 Mil**		13.2 Mil
afternoon	Domestic Car/Truck Sales – Sep	10.6 Mil	**10.4 Mil**		10.3 Mil
10-4 / 9:00 am	Factory Orders – Sep	0.0%	**-0.6%**		-1.0%
10-5 / 7:30 am	Int'l Trade Balance – Aug	-$67.7 Bil	**-$68.9 Bil**		-$70.6 Bil
9:00 am	ISM Non Mfg Index – Sep	56.0	**56.7**		56.9
10-6 / 7:30	Initial Claims – Oct 1	204K	**200K**		193K
10-7 / 7:30 am	Non-Farm Payrolls – Sep	265K	**300K**		315K
7:30 am	Private Payrolls – Sep	275K	**300K**		308K
7:30 am	Manufacturing Payrolls – Sep	20K	**25K**		22K
7:30 am	Unemployment Rate – Sep	3.7%	**3.6%**		3.7%
7:30 am	Average Hourly Earnings – Sep	+0.3%	**+0.4%**		+0.3%
7:30 am	Average Weekly Hours – Sep	34.5	**34.5**		34.5